

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Luce County Housing Commission	County Luce
Fiscal Year End 12-31-05	Opinion Date 4-27-06	Date Audit Report Submitted to State 6-20-06	

We affirm that:

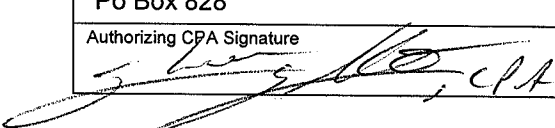
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | | YES | NO | Check each applicable box below. (See instructions for further detail.) |
|-----|-------------------------------------|--------------------------|---|
| 1. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| 2. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| 3. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| 4. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has adopted a budget for all required funds. |
| 5. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | A public hearing on the budget was held in accordance with State statute. |
| 6. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| 7. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| 8. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements. |
| 9. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| 10. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is free of repeated comments from previous years. |
| 12. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The audit opinion is UNQUALIFIED. |
| 13. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| 14. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute. |
| 15. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>	None Issued	
Other (Describe)	<input checked="" type="checkbox"/>	None	
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-774-4300	
Street Address Po Box 828		City Iron Mountain	State MI
Authorizing CPA Signature 		Printed Name Shane M. Ellison, CPA	Zip 49801
		License Number 263063	

LUCE COUNTY HOUSING COMMISSION

REPORT ON FINANCIAL STATEMENTS

(with supplemental information)

For the Year Ended December 31, 2005

LUCE COUNTY HOUSING COMMISSION

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	3-4
Management Discussion and Analysis	5-8
Financial Statements:	
Statement of Net Assets.....	9
Statement of Activities	10
Statement of Revenues, Expenses, and Change in Net Assets	11
Statement of Cash Flows	12
Notes to Financial Statements.....	13-20
Supplemental Information:	
Financial Data Schedule	22-25
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	26





ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:

L. Robert Schaut, CPA
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:

Private Companies Practice Section
American Institute of Certified
Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Luce County Housing Commission
Newberry, Michigan

We have audited the accompanying basic financial statements of the business-type activities of the Luce County Housing Commission as of and for the year ended December 31, 2005 as listed in the Table of Contents. These basic financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Luce County Housing Commission as of December 31, 2005, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2006 on our consideration of the Luce County Housing Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 8 is not a required part of the financial statements but is required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Luce County Housing Commission's basic financial statements. The Financial Data Schedule is presented for the purpose of additional analysis as required by the U.S. Department of Urban Housing and Development and is not a required part of the basic financial statements. The Financial Data Schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, if fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Anderson Tackman & Co. PLC".

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

April 27, 2006

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Luce County Housing Commission's financial performance provides an overview of the financial activities for the year ended December 31, 2005. Please read it in conjunction with the Commission's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- Net assets for the entire Commission were \$329,862 at December 31, 2005 compared to \$342,492 at December 31, 2004.
- The Commission's operating revenues totaled \$593,561 for December 31, 2005 and \$597,554 for December 31, 2004, while operating expenses totaled \$585,604 for December 31, 2005 and \$579,783 for December 31, 2004.

USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows (on pages 9 to 12) provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances.

REPORTING THE COMMISSION AS A WHOLE

Our analysis of the Commission as a whole begins on page 9. One of the most important questions asked about the Commission's finances is "Is the Commission, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets, Statement of Activities, and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Commission as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Commission's *net assets* and changes in them. You can think of the Commission's net assets – the difference between assets and liabilities – as one way to measure the Commission's financial health, or *financial position*. Over time, *increases or decreases* in the Commission's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the population of low income and elderly individuals.

In the Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses, and Change in Net Assets, and the Statement of Cash Flows, the Commission's activities are reported as business-type activities:

- Business-type activities – The Commission charges rent to tenants to help cover all or most of the costs of services it provides.

REPORTING THE COMMISSION'S MOST SIGNIFICANT FUNDS

Our analysis of the Commission's major activities begins on page 9. The financial statements provide detailed information on all of the Commission's activities. The Commission uses proprietary funds to account for its activities. The method of accounting for proprietary funds is explained below.

- *Proprietary funds* – The Commission charges tenants rent for the housing services it provides and these services are reported in a proprietary fund. Proprietary funds are reported in the same way for its activities and are reported in the Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets.

THE COMMISSION AS A WHOLE

The Commission's combined net assets at December 31, 2005 decreased \$(12,636) from December 31, 2004.

Table 1

NET ASSETS

	December 31,	
	2005	2004
Assets		
Current assets	\$ 130,386	\$ 198,463
Capital assets (net)	<u>595,428</u>	<u>655,411</u>
Total assets	<u>725,814</u>	<u>853,874</u>
Liabilities		
Current liabilities	144,459	145,521
Noncurrent liabilities	<u>251,493</u>	<u>365,855</u>
Total liabilities	<u>395,952</u>	<u>511,376</u>
Net Assets		
Invested in capital assets, net of related debt	235,428	185,411
Unrestricted	<u>94,434</u>	<u>157,087</u>
Net Assets	<u>\$ 329,862</u>	<u>\$ 342,498</u>

Net assets of the Commission stood at \$329,862 at December 31, 2005 compared to \$342,492 at December 31, 2004. Unrestricted net business assets were \$94,434 compared to \$157,081 at December 31, 2004. In general, the Commission's unrestricted net assets are used to fund operations of the Commission. The decrease in current assets was due to the Commission using its reserves to pay for expenses in excess of revenues.

Table 2**CHANGE IN NET ASSETS**

	Year Ended December 31,	
	2005	2004
Revenues:		
Program revenues:		
Charges for services	\$ 114,762	\$ 117,956
Program grants and subsidies	474,835	475,754
General revenues:		
Other revenues	3,964	3,606
Unrestricted investment earnings	3,667	3,844
Total revenues	597,228	601,160
Program Expenses:		
Operating expenses	585,604	579,783
Interest expense	24,260	31,826
Total expenses	609,864	611,609
Change in net assets	(12,636)	(10,449)
Net assets - beginning of period	342,498	352,947
Net assets - end of period	\$ 329,862	\$ 342,498

BUSINESS – TYPE ACTIVITIES

Revenues for the Commission totaled \$597,228 compared to \$601,160 during December 31, 2004. The Commission's average unit months leased on a monthly basis had decreased during the current year. In addition, HUD operating funds and capital funding grants had increased during the current year. The Commission depends on HUD operating and capital grants to assist in covering its operating expenses. The increase in operating expenses is largely due to increase in depreciation.

CAPTIAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Commission had \$1,880,500 invested in a variety of capital assets including land, equipment and buildings at December 31, 2005 compared to \$1,879,971 at December 31, 2004.

Table 3

CAPITAL ASSETS AT DECEMBER 31, 2005 AND 2004

Business - Type Activity

	December 31,	
	2005	2004
Land and improvements	\$ 42,965	\$ 42,965
Building and improvements	1,763,574	1,763,574
Equipment	<u>73,961</u>	<u>73,432</u>
Total	1,880,500	1,879,971
Less accumulated depreciation	<u>(1,285,072)</u>	<u>(1,224,560)</u>
NET CAPITAL ASSETS	<u>\$ 595,428</u>	<u>\$ 655,411</u>

The Commission invested \$529 in capital assets during the year ended December 31, 2005.

BONDS PAYABLE

During the year the Commission repaid bonds payable in the amount of \$110,000, representing all long-term liability payments due from the Commission during the year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Commission's appointed officials considered many factors when setting the budget for the fiscal year 2005/2006. The current availability of low income and elderly tenants has been a major contributing factor in establishing the budgeted amounts. In the upcoming year, we do not anticipate any significant change in the occupancy rate and availability of new tenants that will provide any substantial increase in revenues. There continues to be a variety of inflationary cost and expense issues out of the control of the Commission. All of these were taken into consideration during the 2005/2006 budget process.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide the readers with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Commission's Executive Director, Erin Teske, at 550 West Victory, Newberry Michigan 49868, or call 906-293-5988.

LUCE COUNTY HOUSING COMMISSION

**STATEMENT OF NET ASSETS
Proprietary Fund**

December 31, 2005

CURRENT ASSETS:

Cash and equivalents	\$ 124,533
Accounts receivable	134
Prepaid expenses	4,984
Inventories	<u>735</u>

TOTAL CURRENT ASSETS	<u>130,386</u>
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NONCURRENT ASSETS:

Capital assets	1,880,500
Less accumulated depreciation	<u>(1,285,072)</u>

NET CAPITAL ASSETS	<u>595,428</u>
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TOTAL ASSETS	<u>\$ 725,814</u>
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CURRENT LIABILITIES:

Accounts payable	\$ 5,592
Accrued liabilities	23,867
Bonds payable	<u>115,000</u>

TOTAL CURRENT LIABILITIES	<u>144,459</u>
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NONCURRENT LIABILITIES:

Compensated absences	6,493
Bonds payable	<u>245,000</u>

TOTAL NONCURRENT LIABILITIES	<u>251,493</u>
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TOTAL LIABILITIES	<u>395,952</u>
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NET ASSETS:

Investment in capital assets, net of related debt	235,428
Unrestricted net assets	<u>94,434</u>

NET ASSETS	<u>\$ 329,862</u>
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The accompanying notes to financial statements are an integral part of this statement.



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

LUCE COUNTY HOUSING COMMISSION

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2005

<u>FUNCTIONS/PROGRAMS</u>	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>
	<u>Expenses</u>	<u>Fees, Fines and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
BUSINESS-TYPE ACTIVITIES:				
Public Housing	\$ 609,864	\$ 114,762	\$ 474,835	\$ -
				\$ (20,267)
General revenues:				
Unrestricted investment earnings				3,667
Other				3,964
Total general revenues				7,631
Changes in net assets				(12,636)
NET ASSETS, beginning of year				342,498
NET ASSETS, end of year				\$ 329,862

The accompanying notes to the financial statements are an integral part of this statement.

LUCE COUNTY HOUSING COMMISSION

**STATEMENT OF REVENUES, EXPENSES, AND CHANGE
IN NET ASSETS
Proprietary Fund**

For the Year Ended December 31, 2005

OPERATING REVENUES:

Tenant revenue	\$ 114,762
Program grants-subsidies	474,835
Other income	<u>3,964</u>

TOTAL OPERATING REVENUES	<u>593,561</u>
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OPERATING EXPENSES:

Administration	129,183
Tenant services	243
Utilities	43,968
Maintenance	27,287
General	13,694
Housing assistance payments	309,296
Other operating expenses	1,421
Depreciation	<u>60,512</u>

TOTAL OPERATING EXPENSES	<u>585,604</u>
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OPERATING INCOME	<u>7,957</u>
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NONOPERATING REVENUES AND (EXPENSES):

Interest income	3,667
Interest expense	<u>(24,260)</u>

TOTAL NONOPERATING REVENUES AND (EXPENSES)	<u>(20,593)</u>
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CHANGE IN NET ASSETS	(12,636)
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NET ASSETS, BEGINNING OF YEAR	<u>342,498</u>
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NET ASSETS, END OF YEAR	<u>\$ 329,862</u>
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ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



The accompanying notes to financial statements are an integral part of this statement.

LUCE COUNTY HOUSING COMMISSION

**STATEMENT OF CASH FLOWS
Proprietary Fund**

For the Year Ended December 31, 2005

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from customers	\$ 114,628
Cash received from grants and subsidies	479,028
Cash payments to suppliers for goods and services	(406,516)
Cash payments for wages and related benefits	(121,033)
Cash payments for payment in lieu of taxes	(2,500)
Other receipts	<u>3,964</u>

NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>67,571</u>
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**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES:**

Acquisition of capital assets	(529)
Payment of bond principal	(110,000)
Payment of bond interest	<u>(24,260)</u>

NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(134,789)</u>
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CASH FLOWS FROM INVESTING ACTIVITIES:

Investment income	<u>3,667</u>
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NET CASH PROVIDED FROM INVESTING ACTIVITIES	<u>3,667</u>
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NET (DECREASE) IN CASH AND EQUIVALENTS	(63,551)
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CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>188,084</u>
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CASH AND EQUIVALENTS, END OF YEAR	<u><u>\$ 124,533</u></u>
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RECONCILIATION OF OPERATING INCOME TO NET

CASH PROVIDED BY OPERATING ACTIVITIES:

Operating income (loss)	\$ 7,957
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	60,512
Changes in assets and liabilities:	
Decrease (Increase) in receivables	4,059
Decrease (Increase) in prepaid expenses	(268)
Decrease (Increase) in inventories	735
Increase (Decrease) in accounts payable	(5,263)
Increase (Decrease) in accrued liabilities	<u>(161)</u>

NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u><u>\$ 67,571</u></u>
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The accompanying notes to financial statements are an integral part of this statement.



LUCE COUNTY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

The Luce County Housing Commission (Commission) was formed by the Luce County Commission under Public Act 18 of 1933 of the State of Michigan. The Commission operates under a Board of Commissioners appointed by Luce County.

The Commission manages 40 units of Section 8 Supplemental Units and 110 Housing Choice Vouchers, of which, for financial reporting purposes, includes all of the activities relevant to its operations.

Component Unit

In evaluating how to define the Commission for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*.

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be include in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board, and scope of public service.

Based on the foregoing criteria, it was determined that there are no component units of the Luce County Housing Commission, but the Commission is a component unit of Luce County, Michigan.

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.

BASIS OF PRESENTATION

The Commission presents its financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34.

Government-Wide Financial Statements:

The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and the Statement of Cash Flows display information about the Commission as a whole. They include all business-type activities of the Commission. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.



LUCE COUNTY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

Proprietary Fund

Proprietary Funds are used to account for operations, (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

The government-wide Statement of Net Assets, Statement of Activities, and the Statement of Revenues, Expenses and Change in Net Assets are presented using the economic resource measurement focus as defined below.

- a. The Commission utilizes an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported.

Basis of Accounting:

The Statement of Net Assets, Statement of Activities, Statement of Revenues, Expenses and Change in Net Assets, and Statement of Cash Flows are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

As allowed by GASB Statement No. 20, the Commission's business-type activity follows all GASB pronouncements and FASB Statements and Interpretations that were issued on or after November 30, 1989, except those that conflict with a GASB pronouncement.



LUCE COUNTY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS

- a. Cash and Equivalents – The Commission's cash and cash equivalents, as reported in the Statement of Cash Flows and the Statement of Net Assets, are considered to be cash on hand, demand deposits, and short-term investments with maturities of three months or less.
- b. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.
- c. Inventory – Inventory is recorded at the lower of cost or market and primarily consisted of maintenance supplies and materials.
- d. Due To and Due From Other Programs – Interprogram receivables and payables arise from interprogram transactions and are recorded by all funds affected in the period in which transactions are executed.
- e. Capital Assets – Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and improvements	10-40 years
Furniture and other equipment	5-10 years

The Commission has adopted a capitalization policy for capital assets of \$200 per item.

- f. Compensated Absences - It is the Commission's policy to permit employees to accumulate a limited amount of earned but unused sick leave and vacation days, which will be paid to employees upon separation from the Commission. The cost of vested sick leave and vacation days are recognized as an expense as earned by the employees.
- g. Equity Classification

Government-Wide Statements:

Equity is classified as net assets and displayed in two components:

- 1. Invested in capital assets – Consists of capital assets, net of accumulated depreciation.



LUCE COUNTY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS (Continued)

2. Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

REVENUES AND EXPENSES

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities. Expenses are classified by operating and nonoperating and are subclassified by function, such as salaries, supplies, and contracted services.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interprogram Activity:

As a general rule, the effect of activity between programs has been eliminated from the government-wide statements.

The transfers of cash between the various Authority programs are reported separately from revenues and expenses as operating transfers in or (out), unless they represent temporary advances that are to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing program.

Interprogram receivables and payables are eliminated from the Statement of Net Assets.

Budgets and Budgetary Accounting:

Budgets are adopted on a basis prescribed or permitted by the Department of Housing and Urban Development. All annual appropriations lapse at fiscal year end. The Commission follows these procedures in establishing the budgetary date reflected in the financial statements:

1. The Director submits to the Board a proposed operating budget for the fiscal year commencing on January 1st. The operating budget includes proposed expenses and the means of financing them. Prior to December 31st, the budget is legally adopted by Board resolution.
2. Formal budgetary integration is employed as a management control device during the year.
3. The budget has been amended. Supplemental appropriations were made during the year with the last one approved prior to December 31st.



LUCE COUNTY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(Continued)

NOTE B - CASH AND INVESTMENTS

Cash and Equivalents

The Commission's cash and equivalents, as reported in the Statement of Net Assets, consisted of the following:

Checking accounts	\$ 81,510
Money markets	<u>43,023</u>
TOTAL	<u>\$ 124,533</u>

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the Commission's deposits may not be returned. As of December 31, 2005, the Commission's cash and equivalents were not exposed to credit risk, due to them being fully insured.

NOTE C - CAPITAL ASSETS

A summary of capital assets as of December 31, 2005 is as follows:

	Balance 1-1-05	Additions	Deletions	Balance 12-31-05
Land and improvements	\$ 42,965	\$ -	\$ -	\$ 42,965
Building and improvements	1,763,574	-	-	1,763,574
Equipment	<u>73,432</u>	<u>529</u>	<u>-</u>	<u>73,961</u>
	1,879,971	<u>\$ 529</u>	<u>\$ -</u>	1,880,500
Accumulated depreciation	<u>(1,224,560)</u>	<u>\$ (60,512)</u>	<u>\$ -</u>	<u>(1,285,072)</u>
Net capital assets	<u>\$ 655,411</u>			<u>\$ 595,428</u>

Depreciation expense for the year was \$60,512.

NOTE D - RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission maintains commercial insurance covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.



LUCE COUNTY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(Continued)

NOTE E - USE OF ESTIMATES

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE F - VULNERABILITY DUE TO CERTAIN CONCENTRATIONS

The Commission is dependent upon the Department of Housing and Urban Development (HUD) to fund its operations through operating subsidies and capital funding grants. Total operating revenues for the year ended December 31, 2005 totaled \$593,561 of which \$474,835 or 79.9% was from HUD subsidies and grants.

The operations of the project are subject to rules and regulations of HUD. These rules and regulations are subject to change. Such changes may occur with short notice and could create a lack of funding to pay for operational related costs, including the additional administrative burden to comply with the changes.

NOTE G - RETIREMENT PLAN

Description of Plan and Plan Assets - The Housing Commission participates along with the County in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS); administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement and service retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 1.7 percent times the final average compensation (FAC). The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2004.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.3333 (a); MCLA 46.12 (a), as amended, State of Michigan. MERS is regulated under Act No. 427 of Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and requires supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by negotiation with the County's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The County is required to contribute at an actuarially determined rate. The contribution rate as a percentage of payroll at December 31, 2004 is as follows: Housing Commission 12.26%



LUCE COUNTY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(Continued)

NOTE G - RETIREMENT PLAN (continued)

Annual Pension Cost - During the fiscal year ended December 31, 2004, the County's contributions totaling \$154,284 were made in accordance with contribution requirement determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three-Year Schedule of Funding Progress

Actuarial Valuation Date	Accrued Actuarial Value of Assets (a)	Actuarial Liability - (AAL)Entry Age (b)	Underfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
12/31/02	\$1,822,786	\$2,914,373	\$1,091,587	62.5%	889,309	123%
12/31/03	\$1,972,826	\$3,071,468	\$1,098,642	64%	907,429	121%
12/31/04	\$2,131,543	\$3,343,489	\$1,211,946	64%	991,194	122%

NOTE H - CHANGES IN LONG-TERM OBLIGATIONS

During the year ended December 31, 2005, the following changes occurred in long-term liabilities.

	Balance January 1, 2005	Additions	Repayments	Balance December 31, 2005	Amounts Due Within One Year
Bonds	\$470,000	\$ -	\$(110,000)	\$360,000	\$115,000
Vested sick pay	<u>5,855</u>	<u>638</u>	<u>-</u>	<u>6,493</u>	<u>-</u>
TOTALS	<u>\$475,855</u>	<u>\$ 638</u>	<u>\$(110,000)</u>	<u>\$366,493</u>	<u>\$115,000</u>



LUCE COUNTY HOUSING COMMISSION

NOTES TO FINANCIAL STATEMENTS

December 31, 2005

(Continued)

NOTE I – LONG-TERM OBLIGATIONS

Long-term obligations at December 31, 2005 are comprised of the following amounts:

1. 1978 Capital Building Bonds due in annual installments of \$10,000 to \$100,000 through May 1, 2007 with interest at 7.25%.	\$200,000
2. 2002 Rehabilitation Bonds due in annual installments of \$5,000 to \$50,000 through July 1, 2010 with interest at 4.45%	<u>160,000</u>
	360,000
3. Vested sick pay	<u>6,493</u>
Total long-term obligations	<u>\$366,493</u>

The annual requirements to amortize long-term obligations outstanding as of December 31, 2005 are as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Bond Issues</u>		<u>Vested</u> <u>Sick Pay</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
2006	115,000	17,995	-	132,995
2007	125,000	10,077	-	135,077
2008	30,000	5,340	-	35,340
2009	40,000	4,006	-	44,006
2010	<u>50,000</u>	<u>2,224</u>	<u>6,493</u>	<u>58,717</u>
TOTAL	<u>\$360,000</u>	<u>\$39,642</u>	<u>\$ 6,493</u>	<u>\$406,135</u>

Interest charged to expenses totaled \$24,260.





**SUPPLEMENTAL
INFORMATION**

LUCE COUNTY HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Proprietary Fund

December 31, 2005

<u>Line Item #</u>	<u>Account Description</u>	<u>Business Activities</u>	<u>Housing Choice Vouchers</u>	<u>TOTAL</u>
<u>ASSETS</u>				
CURRENT ASSETS:				
Cash:				
111	Cash - unrestricted	\$ 71,306	\$ 53,227	\$ 124,533
100	Total cash	71,306	53,227	124,533
Accounts and notes receivables:				
126	Accounts receivable- tenant dwelling rents	134	-	134
126.1	Allowance for doubtful accounts - dwelling rents	-	-	-
120	Total receivables, net of allowances for doubtful accounts	134	-	134
Other current assets:				
142	Prepaid expenses	4,338	646	4,984
143	Inventories	735	-	735
144	Interprogram due from	1,394	-	1,394
150	TOTAL CURRENT ASSETS	77,907	53,873	131,780
NONCURRENT ASSETS:				
Fixed assets:				
162	Buildings	1,763,574	-	1,763,574
163	Furniture, equipment & machinery - dwellings	24,266	-	24,266
164	Furniture, equipment & machinery - administration	44,289	5,406	49,695
165	Leasehold improvements	42,965	-	42,965
166	Accumulated depreciation	(1,279,666)	(5,406)	(1,285,072)
160	Total fixed assets, net of accumulated depreciation	595,428	-	595,428
180	TOTAL NONCURRENT ASSETS	595,428	-	595,428
190	TOTAL ASSETS	\$ 673,335	\$ 53,873	\$ 727,208

See accompanying notes to financial statements



LUCE COUNTY HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Proprietary Fund

December 31, 2005

<u>Line Item #</u>	<u>Account Description</u>	<u>Business Activities</u>	<u>Housing Choice Vouchers</u>	<u>TOTAL</u>
<u>LIABILITIES AND NET ASSETS</u>				
LIABILITIES:				
CURRENT LIABILITIES				
312	Accounts payable ≤ 90 days	\$ 4,353	\$ 1,239	\$ 5,592
321	Accrued wages / payroll taxes payable	-	6,564	6,564
322	Accrued compensated absences - current portion	2,084	248	2,332
325	Accrued interest payable	2,417	-	2,417
341	Tenant security deposits	9,244	-	9,244
342	Deferred revenues	3,310	-	3,310
343	Current portion of long-term debt	115,000	-	115,000
347	Interprogram due from	-	1,394	1,394
310	TOTAL CURRENT LIABILITIES	136,408	9,445	145,853
351	Long-term debt, net of current maturities	245,000	-	245,000
354	Accrued compensated absences - non current	3,028	3,465	6,493
350	TOTAL NONCURRENT LIABILITIES	248,028	3,465	251,493
300	TOTAL LIABILITIES	384,436	12,910	397,346
<u>NET ASSETS</u>				
508.1	Investment in capital assets, net of related debt	235,428	-	235,428
512.1	Unrestricted net assets	53,471	40,963	94,434
513	TOTAL NET ASSETS	288,899	40,963	329,862
600	TOTAL LIABILITIES AND NET ASSETS	\$ 673,335	\$ 53,873	\$ 727,208

See accompanying notes to financial statements



LUCE COUNTY HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Proprietary Fund

For the Year Ended December 31, 2005

Line Item #	Account Description	Business Activities	Housing Choice Vouchers	TOTAL
<u>REVENUES</u>				
703	Net tenant rental revenue	\$ 112,843	\$ -	\$ 112,843
704	Tenant revenue - other	1,919	-	1,919
705	Total tenant revenue	114,762	-	114,762
706	HUD PHA grants	110,104	364,731	474,835
711	Investment income - unrestricted	2,445	1,222	3,667
714	Fraud recovery	-	885	885
715	Other revenue	3,079	-	3,079
700	TOTAL REVENUE	230,390	366,838	597,228
<u>EXPENSES</u>				
Administrative:				
911	Administrative salaries	40,759	38,634	79,393
912	Auditing fees	1,260	2,240	3,500
914	Compensated absences	347	(124)	223
915	Employee benefit contributions- administrative	20,584	7,595	28,179
916	Other operating- administrative	6,719	11,169	17,888
	Total Administrative	69,669	59,514	129,183
Tenant services:				
924	Tenant services - other	243	-	243
Utilities:				
931	Water	7,590	-	7,590
932	Electricity	18,436	-	18,436
933	Gas	17,942	-	17,942
	Total Utilities	43,968	-	43,968
Maintenance:				
941	Ordinary maintenance and operations - labor	10,750	-	10,750
942	Ordinary maintenance and operations - materials & other	5,608	-	5,608
943	Ordinary maintenance and operations - contract costs	8,824	-	8,824
945	Employee benefit contributions- ordinary maintenance	2,105	-	2,105
	Total Maintenance	27,287	-	27,287

See accompanying notes to financial statements



LUCE COUNTY HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Proprietary Fund

For the Year Ended December 31, 2005

Line Item #	Account Description	Business Activities	Housing Choice Vouchers	TOTAL
	General expenses:			
961	Insurance premiums	8,630	1,064	9,694
962	Other general expenses	-	122	122
963	Payments in lieu of taxes	4,000	-	4,000
967	Interest expense	24,260	-	24,260
	Total General Expenses	<u>36,890</u>	<u>1,186</u>	<u>38,076</u>
969	TOTAL OPERATING EXPENSES	<u>178,057</u>	<u>60,700</u>	<u>238,757</u>
970	EXCESS OPERATING REVENUE OVER OPERATING EXPENSES	<u>52,333</u>	<u>306,138</u>	<u>358,471</u>
971	Extraordinary maintenance	1,299	-	1,299
973	Housing assistance payments	-	309,296	309,296
974	Depreciation expense	<u>60,512</u>	<u>-</u>	<u>60,512</u>
900	TOTAL EXPENSES	<u>239,868</u>	<u>369,996</u>	<u>609,864</u>
	Other financing sources (uses)			
1010	Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
1000	EXCESS (DEFICIENCY) OF TOTAL REVENUE OVER (UNDER) TOTAL EXPENSES	<u>\$ (9,478)</u>	<u>\$ (3,158)</u>	<u>\$ (12,636)</u>
MEMO account information				
1102	Debt principal payments	\$ 110,000	\$ -	\$ 110,000
1103	Beginning equity	\$ 298,377	\$ 44,115	\$ 342,492
1104	Prior period adjustments, equity transfers	\$ -	\$ 6	\$ 6
1113	Maximum Annual Contributions Commitment (Per ACC)	\$ -	\$ 364,731	\$ 364,731
1115	Contingency Reserve, ACC Program Reserve	\$ -	\$ -	\$ -
1116	Total Annual Contributions Available	\$ -	\$ 364,731	\$ 364,731
1120	Unit months available	480	1,320	1,800
1121	Number of unit months leased	477	1,318	1,795

See accompanying notes to financial statements



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Commissioners
Luce County Housing Commission
Newberry, Michigan

We have audited the financial statements of the business-type activities of the Luce County Housing Commission as of and for the year ended December 31, 2005, which collectively comprise the Luce County Housing Commission's basic financial statements, and have issued our report thereon dated April 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Luce County Housing Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Luce County Housing Commission's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Commissioners, management and the Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than those specified parties.

Anderson, Tackman & Co., PLC

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

April 27, 2006

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

